

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-425-WS - ORDER NO. 2008-148
MARCH 5, 2008

IN RE: Application of Palmetto State Utility)
Services, Inc. for Authority to Issue and Sell)
Securities (Long-Term Debt or Equity)) ORDER APPROVING
ISSUANCE OF
SECURITIES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Palmetto State Utility Services, Inc. (PSUS or the Company) for a Certificate of Authority to sell common stock to or to borrow money from its parent company, American States Utility Services, Inc. (ASUS), pursuant to 26 S.C. Code Ann. Regs. 103-506 and 103-706 (Supp. 2007) (the regulations).

Pursuant to the terms of the regulations, any utility desiring to issue any securities may apply to the Commission for approval of the proposed issue by filing an Application with the Commission and serving a copy on the Office of Regulatory Staff (ORS). Such service on ORS was made by the Company. ORS has stated that it does not object to the Company's Application.

PSUS states that it intends to sell common stock or borrow money from ASUS to capitalize its operations at Fort Jackson, South Carolina. The proceeds of the sale or loan will be used to fund the operations, maintenance, and capital improvements, if needed, of the water distribution and wastewater systems at Fort Jackson. PSUS notes that if it opts to borrow funds from ASUS, the term of the loan will be longer than twelve months.

The Company requests permission and authority to issue and sell up to \$8,000,000 of common stock to or to borrow up to \$8,000,000 from its parent ASUS, or any combination thereof up to a total of \$8,000,000 at such times as PSUS may deem necessary or advisable, and execute, deliver, and carry out such instruments, documents and agreements as shall be necessary or appropriate to effectuate such sale or borrowing transactions. PSUS states that it requires this financing from ASUS to fulfill its contractual obligations to the Federal Government.

The Company has submitted certain information required by the regulations pursuant to a verified statement as required by the regulations. First, with regard to the amount and character of the securities proposed to be issued, PSUS will issue and sell common stock to its parent ASUS or take long term loans from its parent ASUS at prevailing market rates based upon either (i) the Eurodollar rate plus .5 to 1.0%, depending upon the credit rating of ASUS' parent, American States Water Company or (ii) the higher of Wells' Fargo Prime Rate and the Federal Funds Rate. The combined total of stock sales and loans will not exceed \$8,000,000. With regard to the purpose for which the securities are proposed to be issued, PSUS will utilize the financing obtained through borrowing or issuance of common stock for the construction, completion, extension, and improvement of utility property and facilities pursuant to the terms of its contract with the Federal Government. Funds generated may also be used to operate and maintain existing utility property and facilities. Funds generated may also be used to retire, refund, repurchase, redeem, or reduce outstanding short term debt of PSUS.

As for the consideration for which the securities are to be issued, the common stock will be sold to ASUS for a price based on book value of and capital needed by PSUS. Any loans from ASUS to PSUS will be made upon the same terms as are set forth in the revolving credit arrangements of ASUS' parent, American States Water Company. PSUS contemplates that all borrowing made by PSUS from ASUS will be made pursuant to the terms of a Promissory Note provided to the Commission or similar promissory notes. With regard to the description and estimated value of the property to be acquired through the proposed issue, PSUS intends that the construction, completion, extension, maintenance, and improvement of utility property and facilities pursuant to the terms of its contract with the Federal Government will result in improved service to Fort Jackson, although a precise value cannot be given at this time.

As to terms and conditions of the issuance, any common stock of PSUS sold to ASUS will be sold for a price based upon book value of and capital needed by PSUS. There will be no fees associated with the sale of stock. The terms of any loans taken by PSUS from ASUS will comport with the terms shown in Attachment A to the Application and will be at prevailing market interest rates available to American States Water Company under the terms of its revolving credit arrangements at the time of the borrowing.

With regard to the financial condition of PSUS and its operations, PSUS is a start-up company which will be assigned the contract to maintain, own, and operate the water distribution and wastewater facilities located on the federal enclave at Fort Jackson near Columbia, South Carolina. PSUS has issued 100 shares of common stock to its parent

ASUS in return for initial capitalization of \$100. PSUS has borrowed \$150,783.15 from ASUS as of November 26, 2007, under the terms of the Promissory Note.

With regard to operations, it was anticipated that PSUS would begin operations on Fort Jackson on January 1, 2008. The funds from this Application, if granted, would be used to capitalize and finance those operations.

PSUS submits that the purposes for which the proposed issuance of debt or common stock is to be affected as described above:

- (a) Are for a lawful object within the corporate powers of PSUS;
- (b) Are compatible with the public interest;
- (c) Are necessary for PSUS to properly perform its duties as a public utility;
- (d) Will not impair the ability of PSUS to perform its public utility service; and
- (e) Are reasonably necessary and appropriate to provide adequate funds for the described corporate purposes.

Accordingly, PSUS urges this Commission to enter its Order authorizing, empowering, and permitting PSUS (i) to issue and sell up to \$8,000,000 of debt or equity securities pursuant to the terms and conditions described in the Application at such times as PSUS may deem necessary or advisable, and (ii) to execute, deliver, and carry out such instruments, documents, and agreements as shall be necessary or appropriate to effectuate the sale or borrowing transaction or transactions.

We have examined the entire record in this matter and have concluded that the relief sought by the Company's Application should be granted as filed. We therefore grant PSUS the requisite Certificate of Authority as required by the regulations.

We hold that the purposes for which the proposed issuance of debt or common stock:

- (a) Are for a lawful object within the corporate powers of PSUS;
- (b) Are compatible with the public interest;
- (c) Are necessary for PSUS to properly perform its duties as a public utility;
- (d) Will not impair the ability of PSUS to perform its public utility service; and
- (e) Are reasonably necessary and appropriate to provide adequate funds for the described corporate purposes.

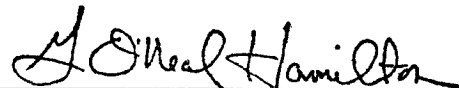
With regard to the character of the securities, PSUS will issue and sell common stock to its parent ASUS or take long term loans from its parent ASUS at prevailing market rates based upon either (i) the Eurodollar rate plus .5 to 1.0% depending on the credit rating of ASUS' parent, American States Water Company, or (ii) the higher of Wells' Fargo Prime Rate and the Federal Funds Rate. With regard to the amount reasonable necessary for the purpose for which they are to be issued, we hold that \$8,000,000 worth of common stock or \$8,000,000 in loans as described in the Application, or a combination of both up to a total of \$8,000,000 is the amount reasonably necessary for the purpose for which the securities are to be issued or the loans incurred. We hereby empower PSUS to issue and sell up to \$8,000,000 of debt or equity securities pursuant to the terms and conditions described in the Application at such times as PSUS may deem necessary or advisable, and PSUS may execute, deliver, and carry out such instruments, documents, and agreements as shall be necessary or appropriate to effectuate the sale or borrowing transaction or transactions. With regard to the value of

any property or services to be acquired through the proposed issue, PSUS intends that the construction, completion, extension, maintenance, and improvement of utility property and facilities pursuant to the terms of its contract with the Federal Government will result in improved service to Fort Jackson, although a precise value cannot be given at the present time.

As noted by the regulations, the issuance of the Certificate of Authority by this Commission shall not impose or imply any guaranty or obligation as to such securities as described in this Order on the part of this Commission.

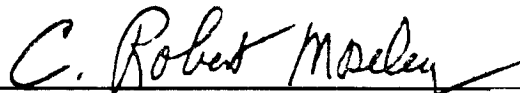
This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



G. O'Neal Hamilton, Chairman

ATTEST:



C. Robert Moseley, Vice Chairman

(SEAL)